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August 1, 2011

Dr. George Diehr
Chair, Investment Committee
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: RMARS Annual Review and Allocation

Dear Dr. Diehr:

You requested Wilshire's opinion with respect to the RMARS Program Update (8a1).

Recommendation

Wilshire notes that RMARS has provided above median returns to CalPERS since inception and believes that it has helped to improve diversification and reduce risk. Wilshire believes that this program should be continued.

In light of a recently announced Staff (SPM) departure, Wilshire recommends that the RMARS team be re-organized to report to the SIO for Global Equities. The program can run on a stand-alone basis and the performance of RMARS can flow directly to the Total Fund, but immediate oversight of the portfolio and team should be handled by the SIO for Global Equities, until such time as a new SPM/SIO for RMARS can be hired.

Discussion

First, although performance of RMARS has trailed the official program benchmark of Treasury Bills plus 5%, the total portfolio has outperformed both the HFRI Fund of Funds Index (a peer universe median) and the S&P 500 since its 2002 inception and has also outperformed the peer universe median over the last three and five years. The difficult market environment of 2008 skews some of the longer term results, as RMARS has outperformed the Treasury Bills plus 5% benchmark in 6 of the last 8 years. As a result, we believe that, excluding the difficult market during the credit crisis, RMARS has generally delivered performance results on par with the expectations of the Investment Committee.



Second, Wilshire was in support of the move by Staff over the last few months to separate RMARS from Global Equities into a program that reports directly to the CIO, under the immediate control of an SPM. With the recent announcement of the departure of the SPM, we believe that this program's remaining Staff require more direct oversight than the CIO may be able to provide, given other demands on his time. Therefore, until a new SPM or SIO for RMARS is hired by CalPERS, we recommend that the RMARS team again report to the SIO for Global Equities in order to provide more direct management / operational oversight. Since we also recommend that the performance of RMARS can still flow directly to the Total Fund, there will be no need to change the Global Equity benchmark during this interim period.

Please let us know if you have any questions or comments.

Best regards,